

January 22, 2008  
House Commerce Committee  
TechTown Testimony

Good morning,

My name is Randal Charlton and I am the interim Director of Techtown, the business incubator park that is being developed on the north end of the campus of Wayne State University.

It is an honor to have the opportunity to talk to you about exciting opportunities that exist to develop our economy and create new businesses and new jobs. I understand that this committee is considering various policy and tax options to encourage new business development. New measures may well be necessary to grow our economy over the long term. However, I think it is important to recognize the progress that has been made over the last several years; first under Governor Engler, and more recently under Governor Granholm.

I want to illustrate that progress by talking to you about a specific opportunity in Detroit and the things we are doing to drive Detroit in a new direction; I believe they have important implications for the entire state.

And I want to seek your support to build on the success we are achieving. I should warn you that I have no special background in economic development. My career has been spent mostly in the world of business, particularly in the development of early stage companies. I took the job as interim director at the invitation of Wayne State's President Irvin D. Reid. It has already turned out to be one the most exciting and rewarding experiences of a long career.

Let me give you a feel for what is happening at Techtown. It gives the lie to the idea that some political leaders have suggested that jobs that have left the area will never return. Old jobs may leave, but new jobs are returning, and they can return faster than you might imagine.

Back in the middle of the last century this area of Detroit, known as the New Center, had been the business heart of the city. Twelve City blocks were home to over 50 companies, including the world's largest company General Motors, Burroughs Machine Company and the American Beauty Iron Company.

However, when I first visited the area just four years ago, in 2003, the area was desolate. I drove down Burroughs Street and did not see a single person or meet another vehicle. Buildings were abandoned and shuttered. Rusted, broken signs, half spelt names and vegetation sprouted from the porous rooftops.

Today, less than 40 months after Techtown opened for business, you might be surprised at the new problems we face. Car parking is perhaps the biggest headache. The facility outside our building is full before 9 am. So is the road- on both sides. We have opened a new temporary parking lot to the north but we will soon need additional space. So what is drawing all this traffic and people?

In a few short years a transformation has begun. A 100,000 square foot building known as the Techone building currently houses over 30 new and emerging businesses. One of them has already gone from an idea to international public company. Across the road a talented team in a \$15 million new NextEnergy building is leading research into alternative energy. Four new schools have been built and another is under construction. New lofts are attracting new residents.

And there is a new coffee shop around the corner where I can go and ponder another problem: how do we build out the space we need to house all the new businesses that want to come here? We have local entrepreneurs that want space that I don't have ready but there are more. A company on the east coast and another in California. The Mexican government is interested in locating a number of high tech companies at Techtown. We also have interest from our other NAFTA partner, Canada, as well as inquiries from European countries Hungary and France.

In a few short years we have developed a range of services to help new businesses get started and in turn improve their odds of success. We are developing new sources of finance and we have helped our incubator companies access capital. Among the new companies in new industries that are becoming successful are Asterand (in life sciences), Vicsa (in advanced engineering), Sensound (in technology from the automotive industry), Walker Miller and Carbon Credits (in alternative energy) and GradeCheck (in education).

We have received a great deal of help to get to where we are now. President Reid of Wayne State University led the drive to establish Techtown. General Motors and the Henry Ford Health System have provided crucial support. So has the City of Detroit, the Herbert and Grace Dow Foundation, the Hudson Webber Foundation, Wayne County, Detroit Renaissance and the Detroit Regional Chamber. The Michigan Economic Development Corporation has provided important early funding and helped to establish Techtown as a Smart Zone, which is one of 12 across the state.

By the end of November 2007, the Techone building, where my office is located, had received approximately \$14.3 million in support. In December and the first two weeks of January, we have received new commitments of approximately \$3.85 million. These include \$1.5 million from the Kresge Foundation, which demonstrated an astonishing willingness to move quickly when they saw the opportunity to grow new jobs.

So what, you might reasonably ask, is the problem? Why should Techtown receive more support and what can Techtown do for the rest of the State? What role can incubator parks play in Michigan's economic development?

Let me address each question briefly; beginning with the role of business incubator parks. They work. They work spectacularly over the long term. Take the example of the Research Triangle that was established in North Carolina in the 1960s. At the time, North Carolina had three failing industries- agriculture, furniture and tobacco, and nowhere near the infrastructure that Michigan has today. It took time. Growth over the first ten years was slow. Today, however, North Carolina's economy is robust- built on new technologies that have grown in large part out of the three universities in the state. North Carolina is now rated one of the best places in the US to live and work.

The concept of business incubation is simple. Most new jobs are created by new start-up businesses. However, new enterprises are risky and four out five fail in the first few years. Provide support, though, in various forms; technical advice, business planning, market research, scientific support, promotion- you name it – and the odds of survival for new companies are dramatically increased. The more new companies make it through the early years the faster the economy grows.

What is special about Techtown?

For a start we are in a city that is key to the economic development of Michigan. In concept, Techtown covers 12 city blocks and is one of the most ambitious urban business incubators in the country.

We are located in an area where every new dollar that is invested can build on the research and other infrastructure that is located in its immediate surroundings. Over one third of a billion dollars of sponsored research is carried out every year within two miles of my office. Much of that research goes on in the various departments of Wayne State University, but there is very important research carried out at other institutions in the area. These include Henry Ford Health System, the Veteran's Administration building, Children's Hospital, the Detroit Medical Center and others. There is also a very strong arts community in the vicinity that includes the Detroit Institute of the Arts, the Center for Creative Studies, numerous arts galleries as well as new restaurants, new housing and new schools. These developments can help attract and retain new businesses from outside the region.

Next, we are located next door to Canada, an important NAFTA partner. 60 percent of all trade with Canada flows through our region. In the last 12 months, we have had firm inquiries from both the Mexican government and from Canada seeking business development collaborations.

We can also turn some of our perceived problems into advantages. The average price of housing in Detroit is among the lowest in the western world. At the same time, the downsizing of the auto industry is releasing skilled workers which represent a source of workers for new high technology industries- some related to the automotive industry. Last week, for example, I had an inquiry from a manufacturer in France seeking information on Detroit. He did so because of the increasing high cost of operating in France and the extremely restrictive labor laws.

Some may accept the value of Techtown as a driver of economic growth in Detroit but wonder what this initiative can do for the rest of the state. In addition to business incubation, we are seeking to develop initiatives that can have a statewide impact. You will be familiar with the statewide activities of Next Energy to develop and support leadership in alternatives to fossil fuel. We are building a center of excellence in life sciences- specifically tissue banking. Last year, the Department of Defense recognized our growing ability in the area by retaining a Techtown consortium to advise them on the future use of the biological bank controlled by the Armed Forces Institute of Pathology. This is the largest tissue bank in the world. Closer to home we are working with the Michigan Department of Community health to provide advice on the future utility of Michigan's biological research resources.

Techtown's special attributes are location, size, an existing rich infrastructure and resources. To those who question further investment at Techtown I simply ask, if not here, where? Where else can the economic development community make such an impact on such a large scale? Dollars invested in Techtown can drive Detroit and Michigan in a new direction.

Of course it matters; it matters a lot if the larger business environment is encouraging to entrepreneurs. Entire countries can alter their approach through policies to encourage the spirit of entrepreneurship. Ireland is one such modern day success story.

In the late 1980's, the Irish began to revise their tax code. They reduced personal income tax, particularly on the first \$50,000. They put more emphasis on sales tax. To encourage new businesses, they lowered corporate income tax to 12.5 percent. They supported favorable taxes for new businesses with organizations like Enterprise Ireland, which, among other things, has encouraged Irish women to become involved in business. Additionally, the Irish have involved their academic institutions in the process of cultural change.

The individual measures taken in Ireland may not all apply here, but my point is that the Irish started, like the folks in North Carolina, from a much weaker economic base than currently exists in Michigan. We can compete; we actually have the structure on which to develop a comprehensive plan. We just have to make the long term commitment.

I understand this committee is looking at various tax incentives for small businesses, and encouraging entrepreneurship through the educational system. Such measures can help towards achieving the dream we have for Techtown. That dream is to have the lights burning in the building 24 hours a day as we compete with the rest of the world for a bigger share of business.